



DEPARTMENT OF AGRICULTURE

Rural Housing Service

7 CFR Part 3555

Single Family Housing Section 502 Guaranteed Loan Program

AGENCY: Rural Housing Service, USDA.

ACTION: Announcement of pilot programs.

SUMMARY: The Rural Housing Service (RHS or the Agency), a Rural Development (RD) agency of the United States Department of Agriculture (USDA), is announcing the implementation of two pilot programs for the Section 502 Single Family Housing Guaranteed Loan Program (SFHGLP), which are the Tribal Property Valuation Pilot Program and the Tribal Rehabilitation Pilot Program. Both pilot programs will provide flexible options for obtaining financing on tribal lands, one with a flexible appraisal option and the other permitting rehabilitation loans for homeowners. The Agency's intention is to evaluate the existing regulations, expand opportunities for economic development, and improve the quality of life in rural tribal communities. Details about these two pilot programs are provided in this notification.

DATES: The effective date of the two pilot programs is [INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER]. The duration of both pilot programs is anticipated to continue until July 28, 2025, at which time the RHS may extend the pilot programs (with or without modifications) or terminate them depending on the workload and resources needed to administer the programs, feedback from the public, and the effectiveness of the programs. RHS will notify the public if the pilot programs are extended or terminated.

FOR FURTHER INFORMATION CONTACT: For general information about the pilot programs, contact Laurie Mohr, Finance and Loan Analyst, Policy, Analysis, and

Communications Branch, Single Family Housing Guaranteed Loan Division, Rural Development, U.S. Department of Agriculture, Email: laurie.mohr@usda.gov; Phone: (314) 679-6917.

SUPPLEMENTARY INFORMATION:

Authority

Title V, section 502 of the Housing Act of 1949, as amended; 42 U.S.C. 1472.

Background

The RHS is committed to helping improve the economy and quality of life in rural areas by offering a variety of programs. The Agency offers loans, grants, and loan guarantees to help create jobs, expand economic development, and provide critical infrastructure investments. RHS also provides technical assistance loans and grants by partnering with agricultural producers, cooperatives, Indian tribes, non-profits, and other local, state, and Federal agencies.

Affordable housing is essential to the vitality of communities in rural America. RHS's Single Family Housing Programs give families and individuals the opportunity to purchase, build, repair their existing home, or to refinance their current mortgage under certain criteria. Eligibility for these loans, loan guarantees, or grants is based on income, which varies according to the average median income for each eligible rural area. Through various program options, RHS offers qualifying individuals and families the opportunity to purchase or build a new single family home with no money down, to repair their existing home, or to refinance their current mortgage under certain qualifying circumstances. There are also programs to assist non-profit entities in their efforts to provide new homes or home repair to qualifying individuals and families. One such program is the Section 502 Guaranteed Loan Program, implemented under 7 CFR part 3555, which provides a 90% loan note guarantee to approved lenders which are intended to assist low- and moderate-income households with the opportunity to own adequate,

modest, decent, safe, and sanitary dwellings as their primary residence in eligible rural areas.

The SFHGLP offers applicants without sufficient resources to provide the necessary housing on their own account, and unable to secure the credit necessary for such housing from other sources upon terms and conditions, which the applicant can reasonably be expected to fulfill without the guarantee, an opportunity to acquire, build, rehabilitate, improve, or relocate dwellings in rural areas. Eligible applicants may purchase, build, rehabilitate, improve, or relocate a dwelling in an eligible rural area. Applicant eligibility for this program is determined by an approved lender.

The RHS is exploring ways the SFHGLP may be able to assist in breaking down barriers in lending on tribal land. One such way is to use its statutory authority to authorize limited demonstration programs (i.e., pilot programs) as allowed by law. The objective of these pilot programs is to test new approaches to offering housing under the statutory authority granted to the Secretary, as set forth in 7 CFR 3555.2(b) (Demonstration programs). Such demonstration programs may not be consistent with some of the provisions contained in 7 CFR part 3555. However, any SFHGLP requirements that are statutory will remain in effect. These pilot programs are intended to assist more eligible very low to moderate income applicants seeking to purchase or rehabilitate affordable housing on tribal land. This notification outlines two new pilot programs under the Section 502 SFHGLP, the Tribal Property Valuation Pilot Program and the Tribal Rehabilitation Pilot Program.

Issues in Lending on Tribal Land

Native American stakeholders have identified significant barriers regarding mortgage lending on tribal land. These include obtaining accurate and fair priced appraisals and being able to secure funds to improve a dwelling even when the dwelling is owned without any encumbrances.

With the unique aspects of real estate located on tribal land, it has become increasingly difficult to secure a traditional appraisal that is both accurate and completed at a reasonable price. There are very few local appraisers and lenders are forced to hire appraisers from different counties, and sometimes different states, to complete appraisal reports. These appraisals often yield reports that are very expensive and frequently completed by individuals that are unfamiliar with the local market area. The local market area will have few or no comparable housing units. The result can be an appraisal report that is not accurate, with a value that is not reflective of the true property value, or the report is not completed to industry standards. The Tribal Property Valuation Pilot Program intends to provide more individuals the ability to purchase homes on tribal lands by allowing an alternative appraisal option to obtain the value of the property.

On tribal lands, it is typical to hand down dwellings from one generation to another and many of these dwellings need extensive renovations. In many situations, the property does not have liens. Over time, many of these homes require substantial repairs or restoration. The current SFHGLP regulations do not allow RHS to finance these properties unless the applicant was to purchase the property, instead of inheriting the home, or unless they currently have an existing Single Family Housing Guaranteed Loan.

The National Congress of American Indians (NCAI)¹ estimates that 40% of housing on tribal land is considered substandard, with less than 50% connected to public sewer systems and 16% lacking indoor plumbing. The U.S. Department of Health and Human Services² reported that as of 2019, an estimated 5.7 million people living in the United States are American Indian and/or Alaska Native, with approximately 22% living on tribal land. The median household income for American Indian and Alaska Native families is \$46,906, compared to \$71,664 for non-Hispanic white households. According

¹ <https://www.ncai.org/policy-issues/economic-development-commerce/housing-infrastructure>.

² <https://minorityhealth.hhs.gov/omh/browse.aspx?lvl=3&lvlid=62>.

to the World Population Review, 33 percent of all Native Americans live in poverty.³ Consequently, many live in homes on tribal lands that are overcrowded and in poor condition.

These statistics show there is a significant need for affordable financial resources to be made available to improve housing conditions on tribal land. Currently, the SFHGLP can assist with purchase transactions on tribal land, which may provide funding for repairs at acquisition. The SFHGLP, however, cannot assist those that already own their own home on tribal land. The Tribal Rehabilitation Pilot Program intends to help those that currently own a home without encumbrances and need to make improvements to ensure these individuals have adequate and safe housing for their families on tribal land.

These pilot programs will provide additional flexibility in lending on tribal lands. One pilot program offers an alternative appraisal option and the other offers funding to rehabilitate homes owned without liens or encumbrances that will facilitate additional homeownership opportunities and allow others to remain in improved and safer homes on tribal land.

Discussion of the Two Pilot Programs

(1) Tribal Property Valuation Pilot Program.

The implementation of the Tribal Property Valuation pilot program is an alternative approach to obtain values when providing financing in remote rural properties on tribal lands. Currently, the SFHGLP regulation at 7 CFR 3555.107(d) (Appraisals) requires the lender to “supply a current appraisal report of the property for which the guarantee is requested.” Furthermore, 7 CFR 3555.107(d)(6) (Appraisals) specifies that the “[u]se of an alternative approach to value for appraisals performed in remote rural areas, on tribal lands, or where a lack of market activity exists may be accepted at the

³ Native American Issues Today | Current Problems & Struggles 2022 - <https://www.powwows.com/issues-and-problems-facing-native-americans-today/>.

Agency's discretion." Qualified appraisers that understand and are in close proximity to tribal land in rural areas are limited. This forces lenders to often use appraisers that must travel long distances. Many times, the appraisal report will cost substantially more, and, in some cases, the appraiser will not be familiar with the local market which will affect the accuracy of the appraisal report itself.

Typically, Tribally Designated Housing Entities (TDHE), Tribal Housing Authorities (THA), Tribal Housing Programs, and other tribal organizations have experience determining property values, adjustments, satisfactory comparables, cost of improvements, etc. on tribal land. Many Tribes have established relationships with appraisers that are familiar with their market area and trends, however many times travel is required to complete a traditional appraisal report. Additionally, the Agency has appraisal staff who are familiar with lending on tribal land. Building partnerships between Rural Development programs and appraisal staff, lenders, tribal organizations, and appraisers to develop a method to obtain accurate appraisals on tribal land would eliminate a significant barrier in tribal mortgage lending and provide a path to increase affordable homeownership opportunities for tribal members. The alternative method would be a desktop appraisal, as explained in the eligibility requirements section of this notification.

(i) *Eligibility Requirements.* Approved lenders in the SFHGLP do not require additional approval to participate in this pilot program. Under 7 CFR 3555.107(d)(6), (Appraisals) the "[u]se of an alternative approach to value for appraisals performed in remote rural areas, on tribal lands, or where a lack of market activity exists may be accepted at the Agency's discretion." This pilot program will allow lenders to provide property information obtained from a qualified entity to either a qualified appraiser or the Agency for review and completion of a desktop appraisal to accurately determine the appraised value of properties located on tribal land. To be eligible for financing under the

Tribal Property Valuation Pilot Program, all program requirements of 7 CFR part 3555 must be met, with the following exceptions and/or considerations:

(A) property must be located on tribal land;

(B) property must meet the existing dwelling property standards and new construction inspection requirements described in 7 CFR 3555.202 (Dwelling requirements);

(C) the site must have acceptable water and wastewater disposal systems to ensure the property is decent, safe, sanitary, and meets community standards. Inspections of private water and wastewater disposal systems are required in accordance with 7 CFR 3555.201 (Site requirements);

(D) fees charged by the qualified entity providing the property documentation required to complete the appraisal constitute an eligible loan cost under 7 CFR 3555.101(b) (Eligible costs); and

(E) the applicant(s) and property must meet all other criteria set forth in 7 CFR part 3555.

(ii) *Desktop Appraisals*. Based on the availability of qualified appraisers, the lender may use one of the following two options to obtain a desktop appraisal on tribal land:

Option 1 – When a qualified appraiser is readily available to complete a desktop appraisal, at reasonable terms, the following process will be used:

(A) A qualified entity, as determined by the lender and appraiser, will provide all required property documentation to the lender for consideration. Examples of qualified entities include TDHE, THA, or other entities familiar with housing construction, repair, and conditions on tribal lands. Documentation provided by a party who has a financial interest in the sale of the property may be accepted if the appraiser verifies such data from a disinterested source.

(B) The lender will submit the required property *documentation to the appraiser for review. The appraiser will review the documentation provided by the lender and determine if the information is accurate, reliable, and sufficient to produce a creditable report.

(C) Once all necessary information has been received, the appraiser will complete a desktop appraisal. Upon completion, the appraisal will be provided to the lender for review and acceptance. The appraisal will be included in the complete loan application package submitted to Rural Development for a Conditional Commitment request.

(D) If the lender determines this option is not available, they may use option two.

Option 2 - When the lender determines a qualified appraiser is not readily available to complete a desktop appraisal at reasonable terms, a Rural Development Staff Appraiser will become involved, and the following process will be used:

(A) A qualified entity, as determined by the lender and concurred with by Rural Development, will provide all required property documentation to the lender for consideration. Documentation provided by a party who has a financial interest in the sale or financing of the property may be accepted if the Rural Development Staff Appraiser verifies such data from a disinterested source.

(B) The lender will submit the required property *documentation to Rural Development for review. The Rural Development Staff Appraiser will review the documentation provided by the lender and determine if the information is accurate, reliable, and sufficient to produce a creditable report. Once all necessary information has been received, the Rural Development Staff Appraiser will complete a desktop appraisal.

(C) When an approved lender needs to use RD for the desktop appraisal, they will email SFH.GLPDTA@USDA.GOV with their lender name, lender number, contact

name, phone number, email address, and property address. A staff member from the Agency will complete the request for the appraisal division to complete a desktop appraisal for the transaction on tribal land. The request will be placed on the national SharePoint for appraisal requests to be completed by the RD team of staff appraisers. The RD appraisal division uses SharePoint to track all appraisal requests and will forward a request out to the lender with all items needed. The appraisal will be completed with USDA identified as the client.

(D) Upon completion, a copy of the appraisal prepared for Rural Development will be provided to the lender and the Policy, Analysis and Communication (PAC) Branch. The lender will have the appraisal available to submit with the rest of the file to the Origination and Processing Division (OPD) in the complete loan application package for a Conditional Commitment request.

(iii) **Documentation.* At a minimum, include the following, as applicable:

- (A) address of property;
- (B) legal description;
- (C) assessor data from local website;
- (D) status of utilities (present, working condition, etc.);
- (E) site plan-approximate well and septic location;
- (F) all property structures and any improvements;
- (G) copy of floor plan with exterior dimensions and approximate interior walls;
- (H) purchase agreement;
- (I) seller disclosure statement;
- (J) copy of specifications, including materials list for construction and interior finishes (*for new constructions*);
- (K) scope of rehabilitation/repairs to be completed;
- (L) copy of specifications including materials list for repairs and interior finishes;

- (M) copy of land leases;
- (N) photos of site and street providing access to the site;
- (O) prior appraisal assignment results if available;
- (P) photos of existing home; exterior front and back, interior photos of each room, interior and exterior photo repair, and rehabilitation items necessary;
- (Q) street providing access;
- (R) any information deemed relevant to accurately value the property.

(iv) *Submission to the Agency.* These guaranteed loan applications must be manually underwritten; however, the documents may be uploaded through Guaranteed Underwriting System (GUS). A job aid for this type of submission is available in our USDA LINC Training and Resources Library in the “Loan Origination” menu at the following link: <https://www.rd.usda.gov/resources/usda-linc-training-resource-library/loan-origination>. Use of the job aid is optional and not required. The lender will use the Lender Loan Closing (LLC) system to load the loan closing documents.

When option 2 is utilized, thus the appraisal is prepared by Rural Development, the requirements of 7 CFR 3555.108(d)(1)(iv) will be waived. All other requirements of 7 CFR 3555.108(d)(1) remain in effect. In all instances, the lender remains responsible for the accuracy of the property documentation provided to complete the appraisal and to ensure compliance with all investor requirements that may apply.

Please be aware investors may require a note be made at loan delivery that a desktop appraisal was used as the appraisal method in the mortgage transaction. The lender is responsible for ensuring all investor requirements are met.

(2) **Tribal Rehabilitation Pilot Program.**

The implementation of the Tribal Rehabilitation pilot program is intended to focus on providing a rehabilitation loan program for homes free of encumbrances on tribal lands. The Agency is proposing to provide loan funds to finance renovations of an

existing home without being part of an acquisition, provided the property is on tribal land. Consistent with the statute, the SFHGLP regulation 7 CFR 3555.101(a) (Eligible purposes) identifies the following eligible purposes which loan funds may be utilized for: (1) the construction or purchase of a new dwelling; (2) the cost of acquisition of an existing dwelling; (3) the cost of repairs associated with the acquisition of an existing dwelling; or (4) acquisition and relocation of an existing dwelling.

In addition, 7 CFR 3555.101(d) (Refinancing) authorizes utilizing loan funds for refinancing transactions, in limited circumstances, however funding for repairs associated with a refinance transaction is not permitted.

With many homes on tribal lands being passed on from one generation to the next, many of these homes need renovations to make them safe and bring them up to current codes. Additionally, many of these properties are free of encumbrances, which would enable this pilot to benefit many homes on tribal lands. The pilot program will allow individuals to remain in safe and improved housing on tribal lands and improve their quality of life.

(i) *Eligibility Requirements.* Approved lenders in the SFHGLP do not require additional approval to participate in this pilot program. The regulation at 7 CFR 3555.101(a) (Eligible purposes) allows the cost of repairs associated with the acquisition of an existing dwelling. Since the inception of the program, the SFHGLP has restricted loan funds from being used to finance solely the rehabilitation of an existing home, without being part of an acquisition. Since many properties on tribal land need significant rehabilitation, this pilot program will allow loan funds to be utilized to finance repairs to existing dwellings located on tribal land that are owned and are free of encumbrances.

To be eligible for financing under the pilot, all program requirements of 7 CFR part 3555 must be met, with the following exceptions and/or considerations:

(A) The home must be located on tribal land;

(B) The home must be owned by the proposed applicant(s), with no outstanding mortgages encumbering or other liens on the property;

(C) The guaranteed loan must have first lien position at closing. The acceptable lien position requirements outlined in 7 CFR 3555.204 (Security requirements) apply for the purpose of this pilot program;

(D) The transaction will be considered as a “purchase” transaction;

(F) The loan amount cannot exceed the as-improved appraised value of the property, only to the extent that the excess represents the financed guarantee fee;

(G) Additional guidance on appraisal requirements may be found in 7 CFR 3555.107(d) (Appraisals);

(H) Property and construction requirements described in 7 CFR 3555.105 (Combination construction and permanent loans) apply;

(I) The site must have acceptable water and wastewater disposal systems to ensure the property is decent, safe, sanitary, and meets community standards.

(J) Inspections of private water and wastewater disposal systems are required in accordance with 7 CFR 3555.201(b) (Site standards);

(K) Upon completion of the repairs, the home must meet the minimum property requirements of Department of Housing and Urban Development (HUD) Handbook 4000.1;

(L) Properties must have adequate hazard insurance on the collateral to protect against fire and weather-related damage (7 CFR 3555.252(b) (Payment of taxes and insurance), and an escrow account for property taxes (if applicable) and hazard insurance will be maintained by the lender.

(M) Manufactured home requirements.

(1) Repairs to existing manufactured homes constitute an eligible loan purpose under the pilot program when the requirements of 7 CFR 3555.208 are met,

including: The manufactured home was constructed on or after January 1, 2006; in conformance with the Federal Manufactured Home Construction and Safety Standards (FMHCSS), as evidenced by an affixed Housing and Urban Development (HUD) Data Plate and Certification Label.

(2) The unit inspection is required using one of the following two methods:

Option 1 - Form HUD-309, "HUD Manufactured Home Installation Certification and Verification Report," completed in accordance with 24 CFR 3286.507(b) by a party qualified as required by 7 CFR 3286.511 such as : a manufactured home or residential building inspector employed by the local authority having jurisdiction over the site of the home, provided that the jurisdiction has a residential code enforcement program; a professional engineer; a registered architect; a HUD-accepted Production Inspection Primary Inspection Agency (IPIA) or a Design Approval Primary Inspection Agency (DAPIA), or an International Code Council (ICC) certified Inspector.

Option 2 - Obtain a certification that the foundation design meets the requirements of either HUD Handbook 4930.3G or HUD Publication 7584, which updated and revised the pre-1996 version of HUD Handbook 4930.3G, "Permanent Foundations Guide for Manufactured Housing (PFGMH)." Certifications referencing either Publication 7584 or Handbook 4930.3G are acceptable. The foundation certification must be from a licensed professional engineer, or registered architect, who is licensed/registered in the state where the manufactured home is located and must attest to compliance with current guidelines of the PFGMH. The certification must be site specific and contain the engineer's or registered architect's signature, seal and/or state license/certification number. This certification can take place of Form HUD-309.

(3) The unit must not have had any alterations or modifications to it since construction in the factory, except for porches, decks or other structures which were built to engineered designs or were approved and inspected by local code officials.

- (4) The unit must not have been previously installed on a different homesite.
- (5) The unit must have a floor area of not less than 400 square feet.
- (6) The unit must meet the Comfort Heating and Cooling Certificate Uo (coefficient of heat transmission) Value Zone for the location.
- (7) The towing hitch and running gear must have been removed.
- (8) The manufactured home must be classified and taxed (if applicable) as real estate.
- (9) The remaining economic life of the property must meet or exceed the 30-year term of the proposed loan.

(N) The applicant(s) and property must meet all other criteria set forth in 7 CFR part 3555. Loan servicing will be conducted in accordance with 7 CFR part 3555.

(ii) *Submission to the Agency.* These Guaranteed loan applications must be manually underwritten; however, the documents may be uploaded through GUS. A job aid for this type of submission is available in our USDA LINC Training and Resources Library in the “Loan Origination” tab or directly here: <https://www.rd.usda.gov/resources/usda-linc-training-resource-library/loan-origination>. Use of the job aid is optional and not required.

The lender will use the Lender Loan Closing (LLC) system to load the loan closing documents. The Loan Note Guarantee will be issued prior to the completion of the repairs. Once the repairs are completed, the lender is responsible to go back in the LLC System and complete the Lender Administration Page. A job aid for this task is available in our USDA LINC Training and Resources Library in the “Loan Closing” tab or directly here: <https://www.rd.usda.gov/resources/usda-linc-training-resource-library/loan-closing>. Use of the job aid is optional and not required.

Paperwork Reduction Act

The regulatory waivers for this pilot program contain no new reporting or recordkeeping burdens under Office of Management and Budget (OMB) control number

0575-0179 that would require approval under the Paperwork Reduction Act of 1995 (44 U.S.C. Chapter 35).

Non-Discrimination Statement

In accordance with Federal civil rights laws and USDA civil rights regulations and policies, the USDA, its Mission Areas, agencies, staff offices, employees, and institutions participating in or administering USDA programs are prohibited from discriminating based on race, color, national origin, religion, sex, gender identity (including gender expression), sexual orientation, disability, age, marital status, family/parental status, income derived from a public assistance program, political beliefs, or reprisal or retaliation for prior civil rights activity, in any program or activity conducted or funded by USDA (not all bases apply to all programs). Remedies and complaint filing deadlines vary by program or incident.

Program information may be made available in languages other than English. Persons with disabilities who require alternative means of communication to obtain program information (e.g., Braille, large print, audiotape, American Sign Language) should contact the responsible Mission Area, agency, or staff office; the USDA TARGET Center at (202) 720-2600 (voice and TTY); or the Federal Relay Service at 711.

To file a program discrimination complaint, a complainant should complete a Form AD-3027, *USDA Program Discrimination Complaint Form*, which can be obtained online at http://www.ascr.usda.gov/complaint_filing_cust.html, from any USDA office, by calling (866) 632-9992, or by writing a letter addressed to USDA. The letter must contain the complainant's name, address, telephone number, and a written description of the alleged discriminatory action in sufficient detail to inform the Assistant Secretary for Civil Rights (ASCR) about the nature and date of an alleged civil rights violation. The completed AD-3027 form or letter must be submitted to USDA by:

- (1) Mail: U.S. Department of Agriculture

Office of the Assistant Secretary for Civil Rights

1400 Independence Avenue, Washington, D.C. 20250-9410; or

(2) Fax: (833) 256-1665 or (202) 690-7442; or

(3) Email: Program.Intake@usda.gov.

Cathy Glover,

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Rural Housing Service,

Rural Development, USDA.

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